



Statement for the Record
House Ways and Means Committee
February 14, 2013 Hearing on Tax Reform and Charitable Contributions

Submitted February 14, 2012 by:
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Chairman Dave Camp, the Association for Healthcare Philanthropy (AHP) respectfully submits this statement on behalf of the more than 5,000 development professionals that raise funds for nonprofit hospitals and health care organizations in the United States. We thank you for this opportunity to share our concerns and suggestions regarding charitable contributions currently under evaluation by the Committee as it considers tax reform.

Who We Are

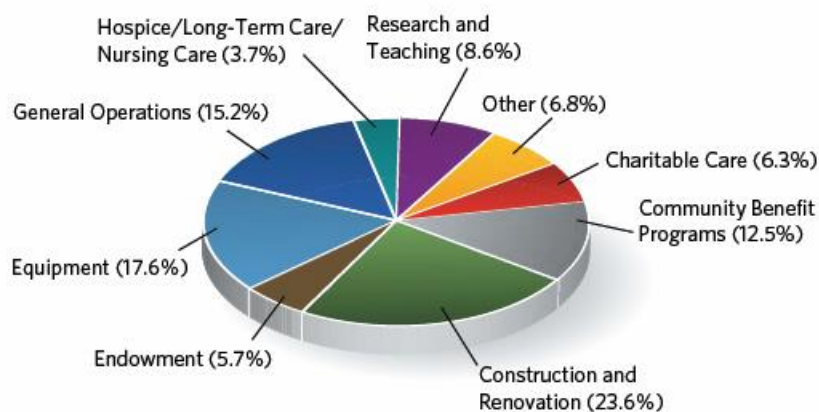
The Association for Healthcare Philanthropy represents the fundraising professionals who are responsible for the management of foundations and fundraising departments that raise funds for nonprofit hospitals and health care providers. Of its more than 5,000 professional members in the United States, AHP represents approximately 2,000 nonprofit hospitals and health care organizations. Our members' mission is to support local communities through health care facilities and the medical services and the community outreach programs they provide, which contribute to the health of our nation.

AHP's members represent fundraising professionals in all sectors of health care including: community hospitals, medical centers, children's hospitals, specialty hospitals, teaching hospitals and medical institutions, long-term care facilities and hospices.

Health care organizations such as these have come to rely on the generosity of grateful patients and members of the communities they serve to help underwrite operations that can no longer be funded through diminishing operating margins; as well as support charitable care, community benefit programs, facility improvements, medical research, essential equipment upgrades and the acquisition of new health care technologies.

Most, if not all, nonprofit hospital and health organizations routinely factor in to their budgets a significant level of philanthropic support. In FY2011, philanthropic support of nonprofit hospitals and health care organizations reached \$8.9 billion in the United States, according to AHP's most recent giving survey report. This number represents a 4% increase from FY 2008's \$8.588 billion after seeing giving drop to \$7.644 billion in FY 2009 in response to the recession.ⁱ

USE AND DISTRIBUTION OF FUNDS RAISED IN FY 2011



Source: AHP FY 2011 Annual Survey of Giving (USA)

Introduction

AHP commends Congress' historical and ongoing efforts to encourage charitable giving through tax incentives. America's nonprofit hospitals and the communities they serve have benefited significantly from these provisions. Nonprofit hospitals provide essential services to their communities, maintaining medical departments and offering services deemed unprofitable by many for-profit hospitals, and managing community programs and outreach efforts that make a critical difference in the health of individuals and our communities.ⁱⁱ

The intrinsic value nonprofit hospitals play in the health of Americans goes far beyond charity care. As just one example, in the state of Georgia, based on FY2010 IRS Form 990 Schedule H reporting, nonprofit hospitals contributed close to a billion dollars in community benefit. While much of that support was dedicated to indigent and charity care, a sizable portion was for funding of community health programs seeking to proactively address health issues and to reach those individuals most at risk and most in need, and for critical research and training of health professionals.ⁱⁱⁱ

The current demands on nonprofit hospitals from the un- and underinsured continue to grow as a result of the recession and prolonged economic downturn. In addition, nonprofit hospitals are struggling to operate under diminishing returns as a result of reduced state and federal funding and ever-mounting capital and operating expenses. In a Moody's Investors Service Special Comment released May 9, 2012, Moody's reports that downgrades for nonprofit hospitals are expected to outpace upgrades in 2012 as nonprofit hospitals face demands to deliver higher-quality service with lower reimbursement rates.^{iv}

Philanthropy plays a critical role in the health of our country's nonprofit hospitals, not only as a vital source of direct funding, but also in the ability of hospitals to obtain private financing. Investment firms now consider philanthropic support and a strong fundraising department or supporting foundation a key component in their financial analysis of nonprofit hospitals.^v

While philanthropic support of nonprofit hospitals and health care organizations is headed back in the right direction, the gains since the recession have come at a cost. Quite simply, it takes more money and more donors to raise the same dollars today than it did prior to the recession, which is why, now more than ever, incentives for giving are needed.

Importance of the Charitable Deduction

AHP recognizes the complexity of the task facing the Committee in evaluating charitable contributions and tax reform. AHP, as a member of the Charitable Giving Coalition, is dedicated to preserving the law that provides a charitable tax deduction for taxpayers who give money to charities.

The charitable deduction is different than other itemized deductions in that it encourages individuals to give away a portion of their income to those in need. It rewards a selfless act, and it encourages taxpayers to give more funds to charities than they would otherwise have given. Data suggests that for every dollar a donor gets in tax relief for his or her donation, the public typically receives three dollars of benefit. No other tax provision generates that kind of positive public impact. It is worth noting that the charitable deduction's unique value is recognized in the FY 2013 Budget's "Buffett Rule" proposal that maintains the charitable deduction for those earning \$1 million a year or more.

Because the charitable deduction is unique and promotes giving to benefit society, we encourage you to reconsider any proposals that limit the value of itemized deductions for charitable contributions, such as the proposal in the FY 2013 Budget that would cap itemized deductions at 28 percent for certain taxpayers, a proposal that was included in the Administration's previous Budgets as well. This proposed cap contradicts and undermines the concept that the charitable deduction is unique and should be protected from any changes that would otherwise diminish its impact. The proposed cap would have long-lasting negative consequences on the charitable organizations upon which millions of Americans rely for vital programs and services.

Higher income taxpayers account for the majority of individual giving. According to a recent Congressional Budget Office report on the tax treatment of charitable giving, tax filers who reported an

adjusted gross income of at least \$100,000 in 2008 were responsible for well over half (about 58 percent) of all charitable giving by taxpayers^{vi}.

People give to worthwhile causes for many reasons—incentives such as tax deductions being among them. Tax incentives make more and larger gifts possible. Tax policy experts such as Joseph Cordes and Martin Sullivan have also noted that charitable giving is more sensitive to tax changes compared to other deductible payments such as local taxes and mortgage interest because taxpayers generally cannot adjust or modify their local taxes or mortgage payments. However, taxpayers can adjust their levels of charitable contributions quite easily in response to tax code changes.

Charities bridge the gap by serving those in need as budgetary constraints hinder states and the federal government from providing services. These charity-provided services are critical. If giving decreases, the nonprofit sector is harmed as well as those in the lowest income brackets who rely heavily upon charitable services. If the charitable deduction is capped, reduced or eliminated, wealthy Americans will not bear the brunt of any changes made to itemized deductions that negatively impact charitable giving—those who are most in need will.

Conclusion

Charities have a very positive impact on the American economy. Nonprofits generate \$1.1 trillion every year for important human services. One in 10 Americans work for a nonprofit – a total of 13.5 million jobs. Nonprofits account for 5.4 percent of the Gross Domestic Product and 9 percent of all wages paid. The sector is incredibly diverse, supporting efforts to:

- Develop such medications as insulin and the polio vaccine
- Provide educational opportunities and access to better health care
- Develop technologies such as the MRI, electron microscope, and pacemaker
- Ensure housing and shelter for the most vulnerable
- Provide access to the arts and cultural activities

As charities struggle to meet increased demands for their services and raise additional funds, we must encourage everyone, regardless of income and wealth, to give more. We look forward to working with you and your staff on this issue and on any other issues affecting the charitable sector.

Endnotes

ⁱ AHP FY2011 Report on Giving-US:

<http://www.ahp.org/publicationandtools/Pages/AHPReportonGivingUS.aspx>

ⁱⁱ *Health Affairs*, “MarketWatch: Making Profits And Providing Care: Comparing Nonprofit, For-Profit, And Government Hospitals,” Jill R. Horwitz, May 2005.

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- ^{iv} Moody’s Investors Service, “Doing More with Less: Credit Implications of Hospital Transition Strategies in Era of Reform,” May 8, 2012, http://moody.s.alacra.com/research/moodys-global-credit-research---PBM_PBM141731.
- ^v Healthcare Financial Management Association, CFO Forum, “Philanthropy: Will It Save Your Operating Budget?” May 29, 2009, http://www.ahp.org/publicationandtools/News/IntheNews/AHPInNews_2009/Pages/hfma62909.aspx,
- ^{vi} Congressional Budget Office, “Options for Changing the Tax Treatment of Charitable Giving,” Statement: Frank J. Sammartino, Committee on Finance, October 18, 2011.